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RUEHBJ/AMEMBASSY BEIJING 2372
RUEHKO/AMEMBASSY TOKYO 2237
RUEHIT/AMCONSUL ISTANBUL 2816
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RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEKJCS/SECDEF WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 001588

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SUBJECT: TURKMENISTAN OIL AND GAS EXHIBITION: LARGE
TURNOUT, NO BREAKTHROUGHS

Classified By: Charge d'Affaires, a.i. Richard M. Miles. Reasons 1.4 (B)
) and (D).

11. (C) SUMMARY. The recent international oil and gas exhibition in Ashgabat attracted participation from a wide-range of foreign companies looking for opportunities in Turkmenistan. Government officials repeated their willingness to work with foreign partners. However, the gap between Turkmen expectations and Western oil companies' business terms remains considerable. European presenters made the case for the attractiveness of their consumer market, including discussions of the Nabucco pipeline and the EU-proposed Caspian Development Corporation. A Gaffney Cline expert provided context for that company's favorable audit of Turkmen gas deposits. An Iran gas official commented on that country's plans to be an active player in the global energy trade, including increased gas exports. While foreign companies serious about doing business in Turkmenistan felt they had to be present at the conference in order to improve their prospects, in a sense paying homage, there was little opportunity for substantive negotiations with GOTX officials and no breakthroughs on their proposals. As one Western analyst urged the Turkmen officials in the audience, the government still needs to start talking with the IOCs. END SUMMARY.

12. (U) The thirteenth Turkmenistan Oil and Gas Exhibition and Conference took place November 19-21 in Ashgabat with solid participation by foreign companies looking for opportunities in the sector. The exhibition hall was packed with company-sponsored booths, with heavy participation by Russian equipment suppliers as well as expansive displays by the likes of Gazprom, Lukoil and Tatneft. Chevron and BP exhibits also occupied high-visibility locations, as well as those of the seven foreign companies that currently have PSAs in Turkmenistan. Among U.S. service and equipment providers, Weatherford, Cameron and NOV had prominent displays.

GOTX WELCOMES FOREIGN "PARTNERS" IN ENERGY SECTOR

13. (U) On November 20, the President's opening remarks, read by Deputy Chairman for Oil and Gas Tachberdy Tagiev, emphasized the central role that Turkmenistan's hydrocarbon resources play in the overall development of the country.

The results of the Gaffney Cline audit were highlighted as proof of Turkmenistan's ability to meet its gas export commitments. Almost every aspect of gas exploration, production and transportation were highlighted as areas for potential partnership with foreign companies "on a mutually beneficial basis." Continuing with the same themes, Minister of Oil and Gas Annaguly Deryayev gave an overview of the investment opportunities presented by Turkmenistan's resources. The need for greater efficiency, new investment and high technology mean the GOTX is "ready to expand the role of foreign companies," over 60 of which have expressed interest in deposits in the Caspian region.

U.S. SUPPORTS MARKET-ORIENTED DEVELOPMENT

14. (U) In his remarks, Coordinator for Eurasian Energy Diplomacy Ambassador Steven Mann highlighted U.S. support for market-oriented development of hydrocarbon resources in Central Asia. He noted that it will be through international cooperation that Turkmenistan will overcome the challenges and realize the potential of its hydrocarbon sector. The recently confirmed, massive deposits of high sulphur, high pressure gas present an opportunity to create international partnerships for their effective development. The mark of American international oil companies is their commitment to train national cadres and to share their technology and expertise with producer countries.

PRESENTERS MAKE THEIR RESPECTIVE CASES

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15. (U) European presenters from the EU, Norway, French Total and the International Energy Agency all offered Europe as a market for Turkmen gas, stressing growing European demand for gas through 2030. The EU speaker, Derek Taylor of the Directorate for Energy and Transport, mentioned the Caspian Development Corporation (CDC), describing it as a "single EU interface" for Turkmenistan that would create demand for upstream development, create stable income for producer states and build needed infrastructure. An executive from Austrian OMV painted an optimistic picture of the Nabucco project, offering a matter-of-fact roadmap leading to the closing of the project's final financial package. He stressed that OMV is committed to linking Turkmenistan to Nabucco, including the company's willingness to participate in a Trans-Caspian pipeline. A Japanese official urged cooperation between energy producer and consumer countries, and offered Japanese technology, especially in the refining sector. Kazakh and Afghan presenters used their presentations as an opportunity to advertise the potential of their own countries' resources. BP executive Michael Daly described the challenge in the South Caspian as first finding, then developing, deposits at ever greater depths. He noted BP's experience in Azerbaijan's offshore and suggested similar conditions exist on the Turkmen side, adding that successful development would require local knowledge combined with international expertise and a willing government.

DETAILS ABOUT GAFFNEY CLINE AUDIT

16. (U) Jim Gillett, the business development manager at Gaffney Cline, provided context about his firm's audit of the South Yolotan/Osman and Yashlar gas fields, the results of which have attracted widespread attention since their October release. The scope of the audit had four aspects: modeling the fields (April through October 2008); identifying issues related to resource evaluation and field development; providing independent resource estimates; and providing recommendations for future development. The analysis involved the use of 2D and 3D seismic imagery and the drilling of nine wells in the South Yolotan field and four wells in the Yashlar field. Gillette said the wide range of the high and low estimates for the "gas initially in place" ("GIIP") was due to the availability of only 2D imagery

outside the central areas. He added that "these are not easy wells to drill," but that they obtained enough data to provide a "reasonable well characterization." In the case of the Yashlar field, only one well penetrated the full section, also contributing to the wider range of estimated GIIP. He summarized the audit's findings by saying that the fields are world-class in terms of both size and challenge, with significant GIIP, but also high levels of sulphur, carbon dioxide and pressure. (NOTE: A U.S. oilfield equipment supplier commented to poloff that 20,000 pounds of pressure, reported during a separate presentation, was extremely high and that very few completed projects worldwide involve such high pressure. END NOTE.) Concerning the future development of the fields, Gillett suggested that 10 bcm per year would be a reasonable size for development phases, an amount that is the typical feed for an LNG facility. Production at that level would produce 1,000 tons of sulphur daily. He also said the fields could be developed more quickly, depending upon export demand.

IRAN FOCUSING ON GAS PRODUCTION FOR EXPORT

17. (U) Speaking at a session on diversifying Turkmenistan's gas transportation options, Seyedreza Kasaezadeh, the General Director of the National Iranian Gas Export Company, used the opportunity to highlight Iran's gas industry. He said Iranian gas production increased 11.3 percent during the past year and that 60 percent of Iranian territory remains unexplored. He expected Iranian production to reach 600 bcm in 2008. Iranian domestic consumption is expected to reach

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420 bcm in 2008, compared to 188 bcm in 2001, and he said the Iranian government wants to reduce the "unreasonable growth in consumption" by removing subsidies. Iran's "strategic" location was offered for pipeline routes from Central Asia that would offer maximum revenues for project partners. Iran could act as a "bridge" between Central Asia and Pakistan, the Middle East and Europe. Kasaezadeh noted that Iranian pipelines have provided the opportunity for cooperation with its neighbors for both transit and export purposes. Highlighting foreign interest in Iranian LNG and gas production projects, he said that implementation of the Iranian government's policy to reduce domestic consumption will allow "great potential" for more exports. Iran plans to be an active player in the global energy trade, with plans to increase gas exports by ten percent per year, with priority given to neighboring countries.

REALITY CHECK OFFERED BY INDUSTRY ANALYST

18. (U) John Roberts, an energy specialist with the Platts newsletter, offered straightforward advice to international oil companies regarding how to deal with the Turkmen. The government of a producer country that has been isolated for a long time has its own way of doing things, he said. The task of Western companies is to put themselves in Turkmen shoes and minds, a place that continues to believe in state involvement in the economy. Roberts suggested that Western companies need to match the pipeline policies of the Russians and Chinese, adding his support for the EU's CDC proposal. He also suggested some realities for the Turkmen to consider -- that small companies cannot raise capital in the midst of a global financial crisis and that few companies can tackle the technical challenges posed by high sulphur, high pressure gas. Finally, he warned the Turkmen that the international oil companies will persevere in their attempts to gain access for only so long, after which "the caravan will move on." In closing, Roberts recommended three actions for the Turkmenistan government. Its officials need to address the Trans-Caspian pipeline issue directly, otherwise Europe will question the Turkmen commitment to ship gas westward. The outcome of an upcoming offer of blocks in the Caspian will be an important indicator of the government's willingness to work with IOCs. And last, the government needs to address the risk-reward relationship for developing its gas fields,

in dialogue with the IOCs. "Not taking any decision would be the biggest mistake of all."

19. (C) COMMENT: From the Turkmen perspective, the exhibition had to be considered a success. Although this year's event might have lacked the "electricity in the air" of last year's first post-Niyazov gathering, the turnout by major industry players was robust and no doubt reinforced the Turkmen belief that they are sitting on a valuable resource and that the energy industry will beat a path to their door for a chance to develop it. The flashy and expensive displays by Chevron and BP were, by their officials' own admission, intended to enhance the companies' standing with the Turkmen by demonstrating both their commitment to working in the country and the advanced technology they can deliver. At the same time, company executives attending the conference were unable to conduct the substantive meetings with Turkmen officials that were needed in order to advance their proposals. Oil and gas sector officials were expected to attend the conference sessions, and during coffee breaks, the crowd that clustered around the door leading to the side meetings resembled a mob scene. Nonetheless, U.S. companies, while hoping for substantive engagement, were aware of its unlikelihood, given the crush of events during the conference. They also used the conference to connect with foreign companies already on the ground in order to get a sense of business conditions. Given Turkmen sensitivities, IOCs who are serious about doing business here were smart to make their presence known at the conference through sponsorship and high-profile representation. On the other

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hand, the conference came and went with no breakthroughs for the companies pursuing projects here. END COMMENT.
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